



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

Of

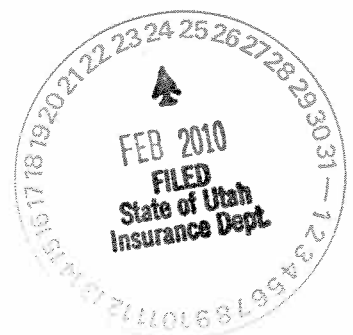
**SECURITY NATIONAL LIFE INSURANCE COMPANY**

Of

Salt Lake City, Utah

as of

December 31, 2008



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January 19, 2010

Honorable Neal T. Gooch, Acting Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Honorable Morris J. Chavez, Superintendent  
Secretary, Western Zone, NAIC  
New Mexico Public Regulation Commission  
Division of Insurance  
PO Drawer 1269  
Santa Fe, New Mexico 87504-1269

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
Virginia State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

**SECURITY NATIONAL LIFE INSURANCE COMPANY**  
Salt Lake City, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

We have performed our single-state examination of Security National Life Insurance Company. This examination covers the period of January 1, 2006 through December 31, 2008.

### Examination Procedure Employed

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

### Status of Prior Examination Findings

The last exam was completed as of December 31, 2005. An item of significance noted in the prior examination report summary was that the Company was not in compliance with the requirements of Utah Code Annotated ("U.C.A.") Title 67, Chapter 04a, Unclaimed Property Act and the provisions of SSAP 67. The Company has corrected items of significance noted in the prior examination report during the current examination period.

## **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted. Recommendations have been included in the recommendation section later in this report.

## **SUBSEQUENT EVENTS**

No significant subsequent events were noted.

## **COMPANY HISTORY**

### General

The Company was organized on January 31, 1967, as Tower Life and Accident Insurance Company, an Illinois corporation. The Company changed its domicile to the State of Florida on August 29, 1989. On January 1, 1990, the Company merged with its insurance subsidiary, Capital Investors Life Insurance Company, and subsequently changed its name to Capital Investors Life Insurance Company.

In December of 1994, the Company changed its domicile from Florida to Utah and adopted new articles of re-domestication and new bylaws as part of the re-domestication process. These documents were filed with and approved by the Department on December 28, 1994. On December 29, 1994, the Company was issued a Utah Certificate of Authority to transact life, annuity and disability insurance.

The Company became a part of Security National Financial Corporation (SNFC) holding company system in December of 1994, when it was acquired from Suncoast Financial Corporation. Security National Financial Corporation was originally created as S.N.L. Financial Corporation in an October 9, 1979 reorganization.

In August of 1987, S.N.L. Financial Corporation registered its stock under Section 12(g) of the Securities Exchange Act of 1934 and completed a public offering of its common stock. In December of 1990, S.N.L. Financial Corporation changed its name to Security National Financial Corporation.

In December of 1995, the Company merged with Security National Life Insurance Company, a Utah domiciled insurer, and Civil Service Employees Life Insurance Company, a California domiciled insurer, with the Company being the surviving corporation. In March 1996, the Department approved articles of amendment to articles of re-domestication to change the Company's name to Security National Life Insurance Company (SNLIC).

In 2004, Article IV- Capital Stock of the Articles of Incorporation was amended so that the par value of both common and preferred stock shall be \$200.00 per share. Article VI – Board of Directors and Article VII – Address and Registered Agent were added. The by-laws were amended in 2002.

Subsequently, Article IV- Capital Stock was amended so that the par value of both common and preferred stock shall be \$170.00 per share. The amendment was approved by the Utah Insurance Department on November 8, 2006.

As of December 31, 2008, the Company's authorized lines of insurance were life, annuity and disability.

### Dividends and Capital Contributions

During December 2006 the Company paid a dividend in the amount of \$4,015,114 to the Company's parent, SNFC. The dividend represents the balance of the policy holders' surplus account for tax purposes which was income that was deferred under federal tax laws subject to certain restrictions. The American Jobs Creation Act of 2004 provided that the policyholders surplus account could be distributed as a dividend with no federal tax consequences if distributed on or before December 31, 2006. Concurrent with the cash dividend, SNFC made a capital contribution in the amount of \$4,015,114 to the Company.

A fourth surplus debenture for \$2,000,000 was issued December 20, 2008. There is no stated maturity date and the outstanding balance value is at the unpaid balance. The interest rate is bank prime plus 4% with a minimum rate of 6% and a maximum rate of 8.5%. This surplus debenture was issued to Holladay Cottonwood Memorial Foundation, Inc., an affiliate of the Company.

### Mergers and Acquisitions

On December 17, 2007, Security National Life Insurance Company completed a stock purchase transaction with Capital Reserve Life Insurance Company (CRLIC); a Missouri domiciled insurance company and its shareholders to purchase all of the outstanding shares of common stock of CRLIC from its shareholders. Under the terms of the stock purchase agreement the Company paid the CRLIC shareholders consideration equal to the capital and surplus of CRLIC as of September 30, 2007 in the amount of \$1,274,000 plus the interest maintenance amount of \$31,000 and asset valuation reserve amount of \$209,000 plus \$1,037,967 less certain adjustments relating to litigation.

At the closing of the transaction SNLIC and CRLIC entered into a reinsurance agreement to reinsure the majority of the in-force business of CRLIC to the extent permitted by the Missouri Department of Insurance. Under the terms of the reinsurance agreement, the Company paid a \$1,738,000 ceding commission to Capital Reserve. Following payment of the ceding commission Capital Reserve declared a \$1,775,262 dividend to the Company. The Missouri Department of Insurance approved both the reinsurance agreement and dividend payment.

On December 17, 1998, the Company purchased a 57.4% interest in Southern Security Life Insurance Company, a Florida domiciled company. On February 4, 2005, the stockholders of Southern Security approved the Agreement and Plan of Reorganization dated August 25, 2004 including the amendment thereto, among Southern Security and the Company and SSLIC Holding Company, a Utah corporation and wholly-owned subsidiary of the Company. Under the terms of the Agreement SSLIC was merged with

and into Southern Security, which merger resulted in Southern Security becoming a wholly-owned subsidiary of the Company and Southern Security's unaffiliated stockholders becoming entitled to \$3.84 in cash for each issued and outstanding share of their common stock. The Florida and Utah Insurance Departments approved the merger.

Southern Security was merged into the Company as part of a plan of liquidation adopted on December 12, 2005 and certified and confirmed by the Florida Division of Corporations on December 24, 2007. As a result of the merger of Southern Security, the Company received all of the stock of Memorial Insurance Company of America (Memorial Insurance) a wholly-owned subsidiary of Southern Security.

On December 18, 2008 the Company completed a stock purchase transaction with Southern Security Life Insurance Company (SSLIC); a Mississippi domiciled insurance company and its shareholders to purchase all of the outstanding shares of common stock of SSLIC from its shareholders. Under the terms of the Agreement Security National paid to the shareholders of SSLIC a purchase consideration equal to \$1,352,134, representing the capital and surplus, interest maintenance reserve and asset valuation reserve of SSLIC as of September 1, 2008, the date that Security National assumed administrative control over SSLIC. Additional consideration was given of \$1,500,000, representing the ceding commission that had been paid on August 29, 2008, plus \$75,883, representing an actual loss allowance experienced by SSLIC in the second quarter ended June 30, 2008, less certain adjustments.

As a result of the transaction, on August 29, 2008, Security National Life and SSLIC entered into a reinsurance agreement to reinsure the majority of the in-force business of SSLIC to the extent permitted by the Mississippi Department of Insurance.

## **CORPORATE RECORDS**

The previous examination report as of December 31, 2005, dated January 20, 2007, was distributed to the audit committee of the Board of Directors on May 11, 2007.

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

The bylaws of the Company indicated the number of directors may be not less than three.

The following persons served as directors of the Company as of December 31, 2008:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Jack Lynn Beckstead Jr	<u>President, Security National Mortgage Company</u>
George R Quist Sr	Chief Executive Officer
Charles L Crittenden	Retired
Scott M Quist	President
Robert G Hunter	Physician
Norman G Wilbur	Executive Director, Dallas Habitat for Humanity
H Craig Moody	Owner, Moody & Associates

The Company's bylaws provide for officers to consist of a president, one or more vice presidents, a secretary and treasurer.

The officers of the Company as of December 31, 2008, were as follows:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Scott Milton Quist	President/Chief Operating Officer
Faye Anne Blackett	Vice President
Diana C Olson	Vice President
Jason G Overbaugh	Vice President
Ronald J Dowden	Vice President
Christie Q Overbaugh	Vice President
John VanValkenburg	Vice President
Jeffrey R Stephens	Secretary
Stephen M Sill	Treasurer

Committees and the respective committee members of the Company as of December 31, 2008 were as follows:

#### **Executive Committee**

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
George R Quist, Sr. , Salt Lake City, Utah	Chief Executive Officer, Security National Financial Corporation
Scott M Quist, Salt Lake City, Utah	President, Security National Financial Corporation
H Craig Moody, Sandy, Utah	Owner, Moody & Associates



### **Audit Committee**

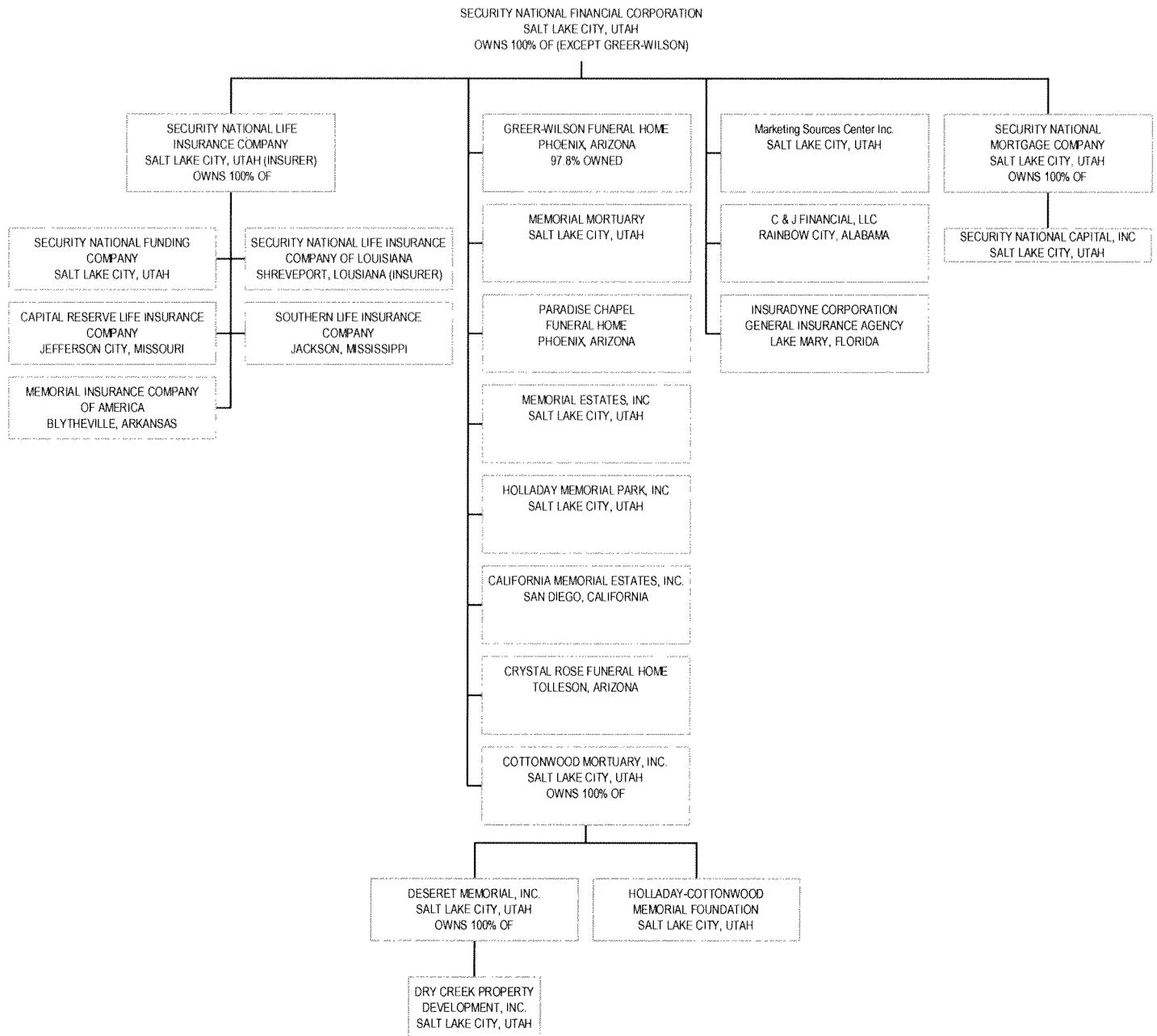
<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Norman G Wilbur, Plano, Texas	Director, Habitat for Humanity
Charles L Crittenden, Ogden, Utah	Retired
H Craig Moody, Sandy, Utah	Owner, Moody & Associates

### **Compensation Committee**

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
George R Quist, Sr. , Salt Lake City, Utah	Chief Executive Officer, Security National Financial Corporation
Charles L Crittenden, Ogden, Utah	Retired
H Craig Moody, Sandy, Utah	Owner, Moody & Associates
Norman G Wilbur, Plano, Texas	Director, Habitat for Humanity

### Holding Company

The Company is wholly owned and controlled by Security National Financial Corporation. An organizational chart illustrating the holding company system follows:



One of the Company's short-term investment strategies is to fund mortgage loans closed by its' affiliate, Security National Mortgage Company, until the mortgages can be packaged and sold to a third-party. The mortgages are underwritten in accordance with the guidelines provided by the third-party purchaser. During the examination period one of the third-party purchasers of mortgages was Lehman Brothers. The collapse of Lehman Brothers forced the Company to fund some mortgages longer than anticipated

and the associated stress in the real estate and mortgage industry resulted in the Company carrying a greater number of foreclosed properties as investments. The Company requested and received from the UDOI, effective for the December 31, 2008 filing date, the Permitted Practice of recording foreclosed properties at the remaining principal balance of the most current appraised value as the reported book value rather than obtaining a new appraisal.

## **FIDELITY BONDS AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for the Company's size and premium volume is not less than \$900,000. As of the examination date, the Company participated in fidelity bond coverage of \$1,000,000. The Company also had additional insurance protection against loss from property and liability risks.

## **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

As of the examination date, the Company's pension stock ownership and insurance plans consisted of participation in programs initiated by Security National Financial Corporation for its employees and the employees of its subsidiaries. The insurance plans consisted of group medical and group term life. The benefit plans included a noncontributory employee stock ownership plan, a stock incentive plan, and a 401(k) savings and profit sharing plan. A provision was made in the financial statement for company obligations under such plans.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2008, the Company's core business consisted of policies written by the Security National Life Insurance Company. A significant portion of these policies were marketed as a means to fund funeral and internment related costs. As of the examination date, the following policies were issued:

Limited Pay Plans
Whole Life Paid up at 100
Flexible Premium Retirement Annuity

The whole life plan and the limited pay plans had maximum death benefits of \$5,000 for increasing benefit plans and \$15,000 for level benefit plans. Additional benefits available under the policies included a \$100 per \$1,000 of initial face amount, if death occurred more than 100 miles from the deceased's legal residence and an additional accidental death benefit equal to the face amount, if the accidental death occurred within ten years from the issued date. If the insured's death occurred while a passenger on or in a common carrier within ten years from the issued date, an additional benefit equal to twice the face amount was paid.

The Company also issued variations of these policy forms that reduce death benefits if death occurs in the first three years of coverage. The Company retained 100% of the policy risks under these policies.

Medical examinations were not required for the limited pay and whole life policies issued by the Company unless information in the application or inspection reports indicated a substandard risk. Due to the small face value of the policy the Company will accept or decline coverage with minimal additional underwriting.

The maximum face benefit under these policies was \$10,000 per life. The Company also issued a limited coverage, group "Water Sports Accident Insurance" policy. It covers an insured if injured in any activity in a natural body of water for pleasure or sport up to a maximum of \$60,000.

The policy forms issued during the examination period were consistent with Department approved forms. The Company's risk retention limit was \$45,000 per life with a corridor for an additional \$5,000.

As of December 31, 2008, the Company was licensed in the following states:

Alabama	Hawaii	Minnesota	South Carolina
Alaska	Idaho	Mississippi	South Dakota
Arizona	Illinois	Missouri	Tennessee
Arkansas	Indiana	Montana	Texas
California	Iowa	Nebraska	Utah
Colorado	Kansas	Nevada	Virginia
Delaware	Kentucky	New Mexico	Wisconsin
District of Columbia	Louisiana	North Dakota	Wyoming
Florida	Maryland	Oklahoma	
Georgia	Michigan	Oregon	

Most of the Company's active agents produced in the states of Utah, Oklahoma, Louisiana, Mississippi and Texas.

Sales materials used were primarily direct mail and point of sale brochures and flyers. These materials were distributed to consumers through general agencies, agents, and funeral homes.

## **GROWTH OF COMPANY**

The Company has grown through merger and acquisition activity. Capital Reserve Life Insurance Company was acquired in 2007 and is a wholly owned Missouri domiciled subsidiary. Southern Security Life Insurance Company, Inc. was acquired in 2008 and is a wholly owned Mississippi domiciled subsidiary. The ratio of net premiums written to capital and surplus rose from 171 in 2005 to 267 in 2008. Although the Company was absorbing acquisitions, during the examination period the company's expense ratio remained relatively flat.

## **MORTALITY AND LOSS EXPERIENCE**

The independent actuarial examination performed indicates that the Company generally followed accurate and appropriate procedures in determining its actuarial assets, reserves, and liabilities. The Company submitted a Statement of Actuarial Opinion with its 2008 Annual Statement in compliance with Section 7 of the NAIC Model Actuarial Opinion and Memorandum Regulation that was found by the independent actuary to be in compliance with NAIC standards.

## **REINSURANCE**

The Company initiates reinsurance transactions predominately in conjunction with its merger and acquisition activity as referred to in the merger and acquisition section and indicated below.

On December 29, 2005 Southern Security completed a stock purchase transaction with Memorial Insurance Company of America (Memorial Insurance); an Arkansas domiciled insurance company, to purchase all of the outstanding shares of common stock of Memorial Insurance. In conjunction with the purchase transaction the Company entered into a reinsurance agreement to reinsure the majority of the in-force business of Memorial Insurance. The assets and liabilities to be reinsured under the agreement were deposited into a trust account in which Zions First National Bank agreed to act as trustee. Any future insurance business by Memorial Insurance is covered by this reinsurance

agreement approved by the Arkansas and Florida Insurance Departments. The ownership of Memorial Insurance was transferred to the Company as part of the sale/merger of Southern Security.

On December 31, 2008, the Company entered into a Coinsurance Funds Withheld Reinsurance agreement with Continental American Insurance Company (Continental) a South Carolina domiciled insurance company, effective November 30, 2008. The Company ceded to Continental 100% of a block of deferred annuities in the amount of \$4,673,177 as of December 31, 2008 and retained the assets and recorded a funds held under coinsurance liability for the same amount. Continental has agreed to pay an initial ceding commission of \$60,000 and a quarterly management fee of \$16,500 to administer the policies. The Company will also receive a 90% experience refund for any profits on the business. The Company has the right to recapture the business on January 1 subsequent to December 31, 2008 or any other date if mutually agreed upon and with 90 days written notice.

## **ACCOUNTS AND RECORDS**

The Company's accounting systems were maintained on a local area network. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An independent certified public accounting firm, Larson & Rosenberger, audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2006 through 2008 contained unqualified opinions and were made available for the examiner's use.

At December 31, 2008, there were two Custodial Agreements (Agreements) in place, neither of which included all of the safeguards required by the revised Utah Administrative Rule (U.A.C.) Rule R590-178. During examination fieldwork the Company executed revised Agreements with both financial institutions which were approved by the Board of Directors on December 4, 2009, therefore, meeting all requirements of U.A.C. Rule R590-178. (Please refer to the Recommendations section later in this report.)

The Company is in violation of U.C.A. 31A-2-205-5(a), which requires payment of examination costs within 10 days of after the day on which the examinee is served with a detailed account of the costs. (Please refer to the Recommendations section later in this report.)

## **STATUTORY DEPOSITS**

The Company's statutory deposit requirement was \$400,000 pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of various corporate bonds and a US Treasury Note with a par value of \$500,000 each, amounting to a total of \$2,000,000 which was adequate to cover the required deposit of \$400,000.

## **FINANCIAL STATEMENTS**

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

SECURITY NATIONAL LIFE INSURANCE COMPANY  
BALANCE SHEET (ASSETS)  
as of December 31, 2008

	Net Admitted Assets
Bonds	\$ 121,003,380
Preferred stocks	1,645,734
Common stocks	11,178,101
Mortgage loans	117,658,303
Property occupied by the company	5,144,739
Property held for the production of income	16,037,124
Property held for sale	4,890,078
Cash and short-term investments	43,573,623
Contract loans	10,015,441
Receivables for securities	154,128
Investment income due and accrued	4,512,069
Uncollected premiums and agents' balances	829,438
Deferred premiums, agents' balances, and installments	4,304,968
Amounts recoverable from reinsurers	-
Other amounts receivable under reinsurance contracts	63,591
Current federal and foreign income tax recoverable	-
Net deferred tax asset	1,350,900
Electronic data processing equipment and software	137,607
Receivables from parent	182,405
Aggregate write ins	231,741
Total assets	<u><u>\$ 342,913,370</u></u>



SECURITY NATIONAL LIFE INSURANCE COMPANY  
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)  
as of December 31, 2008

Liabilities

	<u>Current Year</u>
Aggregate reserve for life contracts	\$ 306,535,631
Aggregate reserve for accident and health contracts	401,795
Liability for deposit-type contracts	3,862,056
Contract claims - life	3,096,676
Contract claims - accident and health	5,000
Dividends not apportioned	625,406
Premium and annuity considerations received in advance	761,527
Interest maintenance reserve (IMR)	364,349
General expenses due or accrued	823,193
Taxes, licenses and fees due or accrued	382,784
Current federal and foreign income taxes	12,271
Unearned investment income	379,906
Amounts withheld or retained by company	279,694
Amounts held for agents' account	103,378
Remittances and items not allocated	443,258
Asset valuation reserve (AVR)	3,079,046
Payable to parent, subsidiaries and affiliates	83,400
Funds held under coinsurance	4,673,177
Aggregate write-ins for liabilities	568,583
Total liabilities	<u><u>\$ 326,481,130</u></u>

Capital and Surplus

Common capital stock	\$ 2,550,000
Surplus notes	9,400,000
Gross paid in and contributed capital	8,937,810
Unassigned funds	(4,455,570)
Total capital and surplus	<u><u>\$ 16,432,240</u></u>

SECURITY NATIONAL LIFE INSURANCE COMPANY  
SUMMARY OF OPERATIONS  
for the Year Ended December 31, 2008

	<u>Current Year</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 44,309,777
Net investment income	18,882,856
Amortization of interest maintenance reserve (IMR)	43,483
Separate accounts net gain from operations excluding unrealized gains or losses	-
Commissions and expense allowances on reinsurance ceded	94,934
Charges and fees for deposit-type contracts	116,535
Aggregate write-ins for miscellaneous income	24,057,860
 Total revenues	 <u>\$ 87,505,445</u>
 Death benefits	 16,965,664
Matured endowments	126,210
Annuity benefits	12,451,141
Disability benefits	76,028
Coupons, guaranteed annual pure endowments	8,832
Surrender benefits and withdrawals for life contracts	5,047,514
Interest and adjustments on contract or deposit-type contract funds	(3,113)
Interest and adjustments on contract or deposit-type contract funds	190,680
Increase in aggregate reserves for life and accident and health contracts	18,563,962
Total benefits and reserves	<u>\$ 53,426,918</u>
 Commissions on premiums, annuity considerations and deposit-type contract funds	 7,685,684
Commissions and expense allowances on reinsurance assumed	3,253,980
General insurance expenses	12,235,215
Insurance taxes, licenses and fees, excluding federal income taxes	1,571,191
Increase in loading on deferred and uncollected premiums	183,756
Net transfers to or (from) separate accounts net of reinsurance	-
Aggregate write-ins for deductions	9,426,618
Total expenses	<u>\$ 34,356,444</u>
Net gain from operations before dividends and federal income taxes	(277,917)
Dividends to policyholders	<u>-</u>
Net gain from operations after dividends and before federal income taxes	(277,917)
Federal and foreign income taxes incurred	<u>-</u>
or (losses)	(277,917)
Net realized capital gains (losses)	<u>-</u>
Net income (loss)	<u>\$ (277,917)</u>

**SECURITY NATIONAL LIFE INSURANCE COMPANY**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
2006 through 2008

	2006	2007	2008	Per Exam 2008	Notes
Capital and surplus prior reporting year	\$ 14,938,685	\$ 15,918,935	\$ 17,875,408	\$ 16,432,239	
Change in unrealized capital gains (losses)	2,319,648	\$ (1,044,736)	\$ (4,237,529)		
Change in asset valuation reserve	(889,404)	263,560	\$ (45,389)		
Net income or (loss)	353,388	2,636,939	(1,060,139)		
Change in nonadmitted assets	(1,444,329)	536,403	399,888		
Surplus adjustments: Paid in			1,500,000		
Aggregate write-ins	640,947	(435,693)			
Change in surplus notes			2,000,000		
Net change in capital and surplus	980,250	1,956,473	(1,443,169)	-	
Capital and surplus end of reporting year	\$ 15,918,935	\$ 17,875,408	\$ 16,432,239	\$ 16,432,239	

**COMMENTS ON FINANCIAL STATEMENTS**

Capital and surplus \$16,432,239

The Company's minimum capital requirement was \$400,000 as defined in U.C.A. § 31A-5-211(2) (a). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital of \$19,511,286, which exceeded the company action level risk-based capital (RBC) requirement of \$12,182,928 by \$7,328,358.

**SUMMARY OF RECOMMENDATIONS**

Implementation of a process to perform an annual review of the custodial agreements for compliance with Utah code and rules will prevent future non compliance issues. At December 31, 2008, there were two Custodial Agreements (Agreements) in place, neither of which included all of the safeguards required by the revised U.A.C. Rule R590-178. During examination fieldwork the Company executed revised Agreements with both financial institutions which were approved by the Board of Directors on

December 4, 2009, therefore, meeting all requirements of U.A.C. Rule R590-178. The Department admitted the assets for examination purposes once the Company became compliant with the Rule during the examination. (ACCOUNTS AND RECORDS)

The Company is in violation of U.C.A. 31A-2-205-5(a), which requires payment of examination costs within 10 days after the day on which the examinee is served with a detailed account of the costs. As of January 13, 2010 there were 10 past due invoices in the sum of \$138,725 for examination fees owed to the Utah Insurance Department, and two firms contracted by the Department to participate in the Financial Examination (RSM McGladrey and Taylor Walker). Payment was made on January 21, 2010 for 7 invoices, and 3 invoices remained unpaid as of February 1, 2010. It is recommended that the Company immediately remit payment for any outstanding fees and future financial examination fees be paid within ten days to maintain compliance with U.C.A 31A-2-205(a).

#### **ACKNOWLEDGEMENT**

Val Smith, ASA, MAAA, of Taylor-Walker & Associates, performed the actuarial phases of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Hermoliva Abejar and Clarissa Crisp, APIR, participated in the examination. Jan Moenck, CFE, CIE, CRP, Director, and Matt Kasurkin, CISA, of RSM McGladrey, Inc. participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'D. Callahan', with a stylized flourish at the end.

Daniel P. Callahan, CFE  
Utah Insurance Department